

North Run Capital, LP

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Form ADV Part 2A: Firm Brochure
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This brochure provides information about the qualifications and business practices of North Run Capital, LP ("*North Run*"). If you have any questions about the contents of this brochure, please contact us at 617-310-6130. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission ("*SEC*") or by any state securities authority.

Additional information about North Run also is available on the SEC's website at www.adviserinfo.sec.gov.

Registration as a registered investment adviser pursuant to the Investment Advisers Act of 1940, as amended, (the "*Advisers Act*") does not imply any level of skill or training.

This document is not an advertisement for the advisory services of North Run, nor an offer to sell or the solicitation of an offer to purchase interests in any fund managed by North Run.

Item 2 – Material Changes

North Run has updated this brochure on Form ADV Part 2A as of March 31, 2017 as part of its annual amendment process. The information in this brochure does not reflect any material changes to the information contained in our most recently filed brochure dated March 30, 2016.

Item 3 -Table of Contents

Item 1 – Cover Page	—
Item 2 – Material Changes	i
Item 3 – Table of Contents.....	ii
Item 4 – Advisory Business.....	1
Item 5 – Fees and Compensation.....	1
Item 6 – Performance-Based Fees and Side-By-Side Management.....	2
Item 7 – Types of Clients	3
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss	4
Item 9 – Disciplinary Information.....	8
Item 10 – Other Financial Industry Activities and Affiliations	8
Item 11 – Code of Ethics.....	9
Item 12 – Brokerage Practices.....	10
Item 13 – Review of Accounts	13
Item 14 – Client Referrals and Other Compensation.....	14
Item 15 – Custody.....	14
Item 16 – Investment Discretion	14
Item 17 – Voting Client Securities.....	14
Item 18 – Financial Information.....	15
Item 19 – Requirements for State-Registered Advisers	15

Brochure Supplements: available upon request

Item 4 – Advisory Business

North Run Capital, LP was formed in 2002. The principal owners of North Run are Thomas B. Ellis and Todd B. Hammer (collectively, the “*principals*”).

North Run provides advisory services to privately offered pooled investment vehicles exempt from registration under the Investment Company Act of 1940, as amended, organized by North Run or its affiliates (collectively, the “*North Run Funds*” or the “*Funds*”). We may, in the future, organize additional investment vehicles or manage separately managed accounts that follow an investment program similar to or different from the investment program of the North Run Funds.

The North Run Funds are organized in a master-feeder structure. Investors invest in one or more of our three feeder funds: North Run Capital Partners, LP and North Run Qualified Partners, LP (each, a Delaware limited partnership, and together, our “*domestic funds*”) and North Run Offshore Partners, Ltd. (a Cayman Islands exempted company we commonly refer to as our “*offshore fund*”). The three North Run feeder funds invest in parallel through our master fund, North Run Master Fund, LP (a Cayman Islands limited partnership).

North Run manages the North Run Funds in a manner consistent with the investment strategy described in the Funds’ offering documents. In addition to day-to-day trading responsibilities, North Run bears primary responsibility for making investment decisions for the Funds and developing investment strategies consistent with the investment objectives, policies and restrictions applicable to the Funds. Investment advice is provided directly to the North Run Funds, subject to the discretion and control of the general partner or the board of directors of each Fund, as applicable. North Run does not provide specifically tailored advice to investors in the Funds. Any investment restrictions applicable to the North Run Funds are set forth in the organizational or offering documents of the Funds.

As of January 1, 2017, North Run’s assets under management were approximately \$673.3 million, all of which are managed on a discretionary basis.

Item 5 – Fees and Compensation

As compensation for its advisory services, North Run receives a management fee based on the assets under management of each of its three feeder funds. The management fee is payable quarterly in advance at the annual rate of 1.5% of each Fund investor’s opening capital account balance of the quarter (or 1.5% of each investor’s share of the offshore feeder fund’s opening net asset value of the quarter, in the case of the offshore fund), before any reduction for incentive allocation accrued during the year. Notwithstanding the foregoing, the management fee applicable to any Fund investor with a capital account balance (or account net asset value, as applicable) that equals or exceeds \$100 million as of the beginning of any calendar quarter is payable at an annual rate of 1.25% for such quarter. For purposes of determining whether the \$100 million threshold is met, any net performance loss from a higher year-end account value is added back to investor account balances, and the account balances of common advisory clients of external investment advisers and consultants are viewed in the aggregate.

The management fee is not negotiable, although North Run retains the discretion to waive fees for one or more investors, in whole or in part, without notification to other investors. North Run does not collect a

management fee from its affiliated and employee investors. In the future, North Run may enter into arrangements with clients other than the Funds on different terms.

The management fee is deducted from the capital accounts corresponding to each investor's interest in the Funds or, in the case of the offshore fund, deducted from the net asset value underlying each share. The aggregate management fee for each feeder fund is paid to North Run directly by the master fund (with corresponding reductions reflected in the feeder fund capital accounts in the master fund). Payments of the management fee by the master fund are made to North Run quarterly in advance in accordance with statements generated by our administrator and approved by North Run.

The capital account of an investor admitted to a Fund on a day other than the first day of the calendar quarter is charged a pro rata portion of the management fee corresponding to the number of months remaining in the quarter. Similarly, in the event of any withdrawal by an investor as of a date other than the last day of the calendar quarter, the investor's capital account would be credited with a pro rata portion of the management fee corresponding to the number of months remaining in the quarter. In the case of a termination of our investment management agreements with the Funds prior to the end of a calendar quarter, the management fee for such period would be pro-rated to the date of such termination with any excess payment refunded to the Funds and credited to investor capital account balances.

In addition to the management fee, an investor bears its allocable share of expenses associated with the operations of the Fund. These include, among others:

- All costs and expenses directly related to its investment program, including brokerage commissions and other transaction costs (brokerage commissions are also discussed in Item 12), expenses related to proxies, underwriting and private placements, interest on debit balances or borrowings, custody fees and withholding or transfer taxes;
- Out-of-pocket costs related to the administration of the Fund, including accounting, audit, administrator and legal expenses, research and research-related expenses, costs of any litigation or investigation involving the Fund's activities, and costs associated with reporting and providing information to investors; and
- Expenses associated with the offering of interests in the Fund (including legal and accounting fees, printing costs and "blue sky" filing fees and expenses, but excluding travel and out-of-pocket expenses incurred in connection with the offering of limited partner interests).

These expenses are deducted from the capital accounts of investors (or reflected in the net asset value of the offshore fund) at the end of the fiscal period in which they are accrued by the Funds (typically monthly).

Item 6 – Performance-Based Fees and Side-By-Side Management

In addition to the management fee, investors in the North Run Funds make an annual performance-based allocation of net profit to an entity affiliated with North Run which serves as general partner of the master fund and the domestic funds, North Run GP, LP (the "*General Partner*"). A portion of net profits initially allocated to each investor's capital account is reallocated to the capital account of the General Partner as of the end of each fiscal year (or the close of any shorter period ending upon an investor's full or partial withdrawal). This reallocation takes place at the master fund level where capital accounts corresponding

to each investor's capital account in the domestic funds and/or share position in the offshore fund are maintained for structural reasons. For investors in the offshore fund, this reallocation is reflected in a corresponding reduction to the net asset value of each investor's shares in the offshore fund.

The performance allocation is 20% of annual net profits (based on realized and unrealized gain) of each Fund, subject to loss recovery provisions (commonly known as a "high water mark") and other limitations discussed in the Funds' private offering memoranda.

The performance allocation with respect to any investor may be waived or altered by the General Partner in its discretion. The General Partner does not receive a performance allocation from investors who are affiliates or employees of North Run.

While not currently applicable to our business, we recognize that the management of funds or accounts with differing terms related to performance-based fees could create potential conflicts of interest, including the risk that an adviser may favor one account over another. The North Run Funds are not subject to this conflict in that they share the same fee structure and are managed as a single pool of assets under a single strategy, with all trading activity conducted through the master fund. If North Run were to manage additional accounts with different fee structures in the future, North Run would adopt trade allocation policies designed to allocate investments in a fair and equitable manner.

Item 7 – Types of Clients

We currently provide investment advisory services to the North Run Funds. One of the domestic funds is exempt from registration under Section 3(c)(1) of the Investment Company Act of 1940, as amended, and the other two feeder funds are exempt from registration under Section 3(c)(7) of the Investment Company Act (with respect to US investors, in the case of the offshore fund). Investors, which include endowments, pension plans and charitable institutions, family offices, other funds, and high net worth individuals and other entities are admitted to the North Run Funds at the discretion of such Fund's general partner or board of directors, as applicable. Some of North Run's employees also have investments in the North Run Funds.

The minimum initial investment is \$1,000,000, although the General Partner (or the Fund, in the case of the offshore fund) may waive the minimum investment amount, in its discretion.

Investors must be "accredited investors" under Regulation D promulgated under the Securities Act of 1933, as amended, "qualified clients" within the meaning of Rule 205-3 under the Advisers Act, and, with respect to investors subject to the requirements of our 3(c)(7) Funds, "qualified purchasers" within the meaning of the Investment Company Act (in each case, subject to any available exemptions).

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Investment Strategy and Methods of Analysis

We believe that inefficiencies in the public markets can cause meaningful disparities between the trading value and true value of various securities. We apply a fundamental value approach to determine the intrinsic value of a security, and we seek to identify catalysts to explain why the security is mispriced and to identify events or circumstances likely to cause the market to realize the security's embedded value. Our method of analysis is rooted in intensive fundamental research. To further explain, the key elements of our strategy and methods of analysis are:

- *Value-Plus-Catalyst:* We believe that a disciplined “private equity” methodology is the best way to evaluate the fair value of a security. This means approaching valuation as if we were buying or selling the enterprise, rather than simply trading in its securities. Our “bottom-up” analysis focuses first on a company's business, with an emphasis on the business' capability to generate free cash flow. We also focus on and seek to identify actual and potential catalysts, events and circumstances that both explain and are likely to eliminate the gap we have identified between the trading value and the fair value of a security.
- *Fundamental Research:* Rigorous fundamental research is integral to our bottom-up approach. We believe that first-hand, independent due diligence is critical to an understanding of the key drivers of a company's business and industry. This may include developing financial models, conducting inquiries or confirmations with customers, suppliers and competitors, and engaging in discussions and meetings with management teams.
- *Contrarian Focus on Pockets of Inefficiency:* We look for securities that have a significant difference between their trading value and their fair value. We concentrate on “pockets of inefficiency” where the market tends to misunderstand or misprice securities, such as companies undergoing transformational changes, troubled companies, companies in other circumstances that are difficult to analyze and underfollowed companies.

North Run has broad and flexible investment authority with respect to the North Run Funds. While the majority of our investments have been in publicly traded equity securities and derivative securities of public equities, the Funds may take long or short positions in equity and fixed income securities of all types, such as stock, options, warrants, equity swaps, credit default swaps, interest rate swaps, currency, futures, commodities, distressed debt, governmental securities, mortgage and asset-backed securities, loans, structured products, securitized products, and other financial instruments. Investments include securities which are listed or traded on domestic exchanges or other trading networks, as well as securities listed or traded on foreign exchanges and securities traded in foreign or domestic over-the-counter markets. At times, a small portion of the Funds' portfolio may be in securities and other assets that are not freely tradable or are otherwise illiquid.

There is no assurance our strategy and methodologies will be successful over any given period of time.

Investing is speculative and involves significant risks, including the risk of total loss of invested capital. The following information is not intended to be a summary of all the risks associated with an investment in the Funds, but rather some specific risks associated with our strategy and the securities in which we typically invest which we believe are important for investors to consider. Investors should carefully review the expanded summary of risks in the Funds' private offering memoranda.

Risks Associated with Strategy and Methodologies

Value-Based Strategy

Our focus on determining the underlying value of companies whose circumstances or prospects we feel the market at large may undervalue or overvalue is subject to two primary risks. First, we may incorrectly assess the fair value of the security in which we are investing. We may make incorrect assumptions regarding certain aspects of the company's business, or we may fail to accurately predict the occurrence or effects of company, industry and macroeconomic developments. Second, even in situations where we are confident in our assessment of fair value, we may fail to identify a sufficient catalyst to close the gap between trading value and fair value. The market may not react to developments in the manner we anticipate, or such developments may not occur in the timeframe we expect or at all. In all of these circumstances, the gap between our purchase price and the security's trading value may continue indefinitely to widen rather than narrow, which may result in a loss or inability to profit on the investment.

Concentration of Investments

While we strive to balance a focus on the most compelling opportunities with sufficient diversification to manage position-specific risk as well as excessive exposure to industry and other macroeconomic variables, we are not subject to formulaic limits on investment concentration. At times when we invest in a relatively small number of positions or concentrate a relatively large portion of the North Run Funds' assets in a small number of positions, the Funds' portfolio will be subject to wider and more frequent fluctuations in value than if the portfolio were more diversified. A loss on any such position could materially reduce the net asset value of the Funds.

Use of Leverage

Subject to applicable margin and other limitations, the Funds may borrow funds in order to make additional investments and thereby increase the possibility of gain and risk of loss. While our use of this type of leverage has been low historically, a significant portion of the portfolio is comprised of short positions, and we do invest in derivatives, both of which can be viewed as other forms of leverage.

In a short sale, the seller sells a security that it does not own, typically a security borrowed from a broker or dealer. Because the seller remains liable to return the underlying security that it borrowed, the seller must purchase the security at a later time in order to replace the security it borrowed and return it to the lender. This exposes the Funds to the risk of liability for the market value of the security sold. While these trades are entered into with the expectation that the price of the borrowed security will decline prior to the date of repurchase, if the price of the security has increased by the date of repurchase, the Funds will incur a loss. The North Run Funds' potential gain is limited to the price at which we sold the security, but the potential loss is unlimited if we do not own the security.

Also, many derivative securities contain implicit leverage in that they provide significantly more market exposure than the money paid or deposited when the trades are entered into. For example, when we purchase an option, we pay a premium equal to a fraction of the price of the underlying security in return

for the right to buy or sell the underlying security at a predetermined price. When the option expires unexercised, it loses all value. If we were to take the other side of the trade and write, or sell, an option, we would receive a premium in return for the obligation to deliver, or take delivery of, the underlying security at a predetermined price. In this case, the risk of loss would be unlimited in that the market value of the underlying asset may differ significantly from the option exercise price at the time we may be required to deliver or take delivery of the underlying asset. North Run is typically a purchaser and rarely a seller of this type of security, but we may sell options or similar instruments from time to time. In any such case, a relatively small adverse market movement could expose the Funds to the possibility of loss exceeding the original amount invested (premium paid plus transaction costs).

While the use of leverage can amplify the profit on successful investments, losses are similarly amplified in the case of unsuccessful investments.

Risks of Associated with Portfolio Securities

Short Sales

We engage in short sales and maintain a sizeable book of short positions. In addition to the leverage risk implicit in short sales discussed under “Use of Leverage” above, we bear the risk that the securities necessary to cover a short position (i.e., by purchasing the replacement security for return to the lender) will not be available for purchase or that securities will not be available to be borrowed at a reasonable cost due to excess demand. If a request for the return of borrowed securities occurs at a time when other short sellers of the security are receiving similar requests, a “short squeeze” can occur, which is a shortage of securities available to satisfy these requests. In this situation, we may be compelled to replace borrowed securities with open market purchases at unfavorable prices which may be significantly in excess of the proceeds we received in the original short sale.

Derivative Securities

Derivative instruments include futures, options, swaps, structured securities and other instruments and contracts that derive their value from one or more underlying securities, financial benchmarks, currencies or indices. Derivatives may be traded on organized exchanges or in individually negotiated transactions with other parties in the “over-the-counter” market.

In addition to the leverage risks associated with derivative securities discussed under “Use of Leverage” above, derivatives expose the Funds to counterparty credit risk, liquidity risk and documentation risk. If a counterparty defaults under a derivative contract that we have entered into in the over-the-counter market, we are left to seek contractual remedies against our counterparty under the transaction documents. There is no assurance our counterparties will be able to meet their obligations under the contracts. In most over-the-counter derivative transactions, we are required to post collateral with our counterparty (and our counterparty is required to do the same with us, depending on which party bears market risk at any given time). In these situations, we bear the risk of a counterparty default (due to insolvency or otherwise) which may delay or prevent us from recovering our collateral. In the event of a counterparty default, the Funds will rank as a general unsecured creditor with respect to any losses not covered by collateral the counterparty has posted with us.

Aside from credit risk, there may not be a liquid market within which to close out or dispose of outstanding derivatives contracts. In addition, when derivative contracts terminate, it may be difficult to enter into

replacement transactions where desired. This may expose the Funds to unfavorable market movements while the contracts are terminated or replacement transactions are executed.

Finally, our counterparty typically has a significant amount of discretion under the contract documentation over determinations that affect the value of the contract and the parties' rights and obligations thereunder. We may become involved in a dispute over amounts we believe we are owed and encounter difficulty, delay or increased costs in resolving any such dispute.

Distressed Securities

We may invest in the securities and obligations of distressed and bankrupt issuers, including distressed debt obligations where we identify opportunities we believe are likely to yield equity-like returns. Such debt obligations may already be in covenant or payment default at the time of our investment. Such investments are generally considered speculative, and, even when profitable, may require a long holding period prior to profitability. The repayment of defaulted obligations is subject to significant uncertainties. Defaulted obligations might be repaid, if at all, only after lengthy workout or bankruptcy proceedings, during which the issuing company might not make any interest or other payments, and the amounts of any recovery may be affected by the relative security of the Funds' investment in the company's capital structure.

Foreign Securities

North Run invests primarily in the public equity and debt markets of the US and other developed countries. Investments in foreign securities involve risks not typically associated with domestic securities, such as risks relating to:

- Fluctuations in currency exchange rates relative to the US dollar (the currency in which the Funds' accounting books and records are maintained) and exchange control regulation (which may include suspension of the ability to transfer currency from a given country and repatriation of investments);
- Differences between the US and foreign securities markets including the absence of uniform accounting, auditing and financial reporting standards and practices, differences in disclosure requirements and market regulation, and, in many jurisdictions, less rigorous government supervision and regulation of exchanges and market participants;
- Foreign settlement procedures and trade practices, which could result in delays in payment or delivery of securities or in recovery of assets held abroad; and
- Political and economic developments abroad, including expropriations or confiscatory taxation, other changes in tax laws, limitations on foreign investment and the transfer of assets, and other effects of political, social or economic instability.

These and other unforeseen risks could interfere with our ability to successfully implement our strategy in foreign markets.

Illiquid Investments

We may invest a small portion of the Funds' assets in investments that are illiquid, lack a readily ascertainable market value or otherwise should be held, in our opinion, until the resolution of a special

event or circumstance. The Funds may not be able to readily dispose of such assets, and, in some cases, may be contractually prohibited from doing so. These limitations on liquidity could hamper our ability to successfully sell the assets at a given time or reduce the amount of proceeds we are able to realize upon sale. In addition, while we have not done so in the past, the Funds, through the General Partner or in consultation with the Fund's directors, as applicable, have the ability to designate an illiquid investment as a "Special Situation Investment," including an investment that becomes illiquid after we acquire the position. While the treatment of Special Situation Investments is discussed more fully in our private offering memoranda, one important limitation is the inability of an investor with a portion of its interest attributable to a Special Situation Investment to redeem that portion of its interest until the Special Situation Investment is sold or ceases to be a Special Situation Investment. The Funds also have the ability to make distributions in kind, which could include illiquid securities.

Hedging Transactions

From time to time, we employ various hedging techniques to mitigate various discrete risks that we believe can be effectively addressed in this manner. The success of any hedging techniques we employ will depend on, among other factors, our ability to predict the future correlation, if any, between the performance of the instruments used for hedging and the performance of the investments being hedged. Since the characteristics of many securities change as markets change or time passes, the success of the hedging strategies may be subject to our ability to correctly readjust and execute hedges in an efficient and timely manner. Changes in correlation over time may render some hedges ineffective. We focus on risk reduction primarily through portfolio construction and enter into hedging transactions only opportunistically to a limited degree and, at times, not at all. At any given time, all or most of our portfolio will be unprotected by hedge positions.

Item 9 – Disciplinary Information

There are no legal or disciplinary events that are material to a client's or prospective client's evaluation of our advisory business or the integrity of our management.

Item 10 – Other Financial Industry Activities and Affiliations

Neither North Run nor any of its management persons is registered, or has an application pending to register, as a broker-dealer, registered representative of a broker-dealer, futures commission merchant, commodity pool operator, commodity trading advisor, or associated person of any of the foregoing entities.

Aside from the investment advisory and general partner relationships between North Run and the General Partner, on the one hand, and the applicable Funds, on the other (including the associated fee arrangements discussed in Items 5 and 6 above), as well as the common control of North Run and the General Partner by Messrs. Ellis and Hammer, neither North Run nor any of its management persons has a relationship material to the business of North Run or the Funds with any related person reportable under this Item. Material conflicts of interest associated with the North Run and General Partner relationships mentioned are discussed in Item 11.

Finally, North Run does not recommend or select other investment advisors for our clients in return for direct or indirect compensation from such advisers, nor does North Run have other business relationships with any investment advisers so recommended or selected, in each case, that creates a material conflict of interest.

Item 11 – Code of Ethics

Code of Ethics

North Run has adopted a Code of Ethics for all employees and partners of North Run describing its high standard of business conduct and fiduciary duty to its clients. The Code includes provisions relating to the confidentiality of client and firm information, prohibitions on insider trading and market manipulation, policies and procedures regarding personal trading, and disclosure and approval requirements for gifts, business entertainment and other conflicts of interest. All employees must acknowledge receipt of the Code and any amendments, and report any violations of the Code to the Compliance Officer.

Employees are generally prohibited from personal trading, but specified means of personal investment are permissible. Subject to the Code, employees may invest in (1) registered open-end mutual funds, approved exchange-traded funds (ETFs), government securities and other cash equivalent securities, (2) pre-approved private securities transactions, and (3) approved managed accounts over which a third party manager exercises sole discretion or directs transactions pursuant to a formula or approach applicable to all similar managed accounts. Employees may also invest in the North Run funds, subject to eligibility requirements. Finally, during designated annual windows, employees may engage in pre-approved sales of securities held at the time the employee joined North Run (or otherwise received through means other than purchase and approved for retention subject to the policy). Any exception to this policy requires approval of the Compliance Officer which is reserved for unusual circumstances and special situations where the risk of conflict and other regulatory and business risks are not present or are appropriately circumscribed (the factors considered in any such decision are described in the Code). The foregoing framework does not provide much opportunity for employee personal accounts to contain a security that is in the Funds, but when this does occur (e.g., through pre-existing holdings or approved retention of gifted securities), employees are not permitted to transact in the security other than pre-approved sales under conditions closely circumscribed by the Compliance Officer so as not to disadvantage or conflict with the interests of investors in the Funds.

We will provide a copy of our Code of Ethics to investors upon request.

Conflicts of Interest

In the ordinary course of conducting its activities, the interests of North Run and its affiliates may conflict with those of the North Run Funds. Some of these potential conflicts, and our measures to address them, include:

Conflicts Relating to Performance-Based Fees. Conflicts relating to performance-based fees are addressed in Item 6 and are mitigated by the fact that the Funds are managed as a single pool of assets and are subject to performance-based compensation at the same rate. In addition, the existence of the performance allocation may create an incentive for the General Partner to cause the North Run Funds to make more speculative investments than they would otherwise make in the absence of such compensation. Finally, as stated above in Item 4, North Run may in the future manage additional

investment vehicles and/or separately managed accounts that entitle North Run and its affiliates to different performance allocations or performance-based fees. To address these conflicts, our policies and procedures seek to provide that our employees make investment decisions based on the best interests of our clients, without consideration of firm or employee pecuniary interests.

Conflicts Relating to Valuation. The General Partner or the board of directors, as applicable, of a North Run Fund exercises supervisory authority over the valuation of the Fund's assets, which authority has been delegated, in each case, to North Run. Valuation methodologies for certain investments can be subjective and involve a measure of judgment by North Run. The portfolio valuations that we oversee affect the calculation of management fees payable to us and the performance allocation paid to our affiliate, the General Partner. We have a valuation policy designed to minimize this potential conflict of interest which directs us to use stock exchange pricing and other external price measures for most securities and requires us to use consistent and fair valuation criteria in circumstances where external pricing is unavailable or unreliable. In addition, our third-party administrator assumes primary operational responsibility for pricing our portfolio, and a full reconciliation of administrator and internally gathered pricing information is performed at month end and approved by a valuation committee comprised of our portfolio managers and Chief Operating Officer/Chief Financial Officer.

Conflicts Related to the Adviser or its Employees Trading for Their Own Account. Investments by North Run or its employees, for their own accounts, in securities that are also in the Funds' portfolio could, or could appear to, interfere with North Run's exercise of independent investment decision-making in the best interest of the Funds. In addition, the timing of any trading in such securities by North Run or its employees could have a disadvantageous effect on the values, prices or trading strategies of the Funds. This risk of conflict is addressed through our personal trading policy, described above in this Item 11, which narrowly limits the types of securities in which employees and North Run may invest. Investment in any other security requires approval of the Compliance Officer, and the timing of disposition of any security held in common with the Funds is closely circumscribed by the Compliance Offer to ensure no disadvantageous effect on the Funds.

North Run's management of a single strategy and single pool of assets under its current structure does not present the risk of conflict that arises when trades must be allocated among different managed accounts. In addition, North Run's structure supports its policies against principal transactions (acting as a principal in a trade with the Funds) and agency cross trades (acting as a broker in a trade between the Funds and another party).

Item 12 – Brokerage Practices

Broker Selection and Evaluation

In keeping with our fiduciary duties to the Funds, we seek "best execution" in effecting trades for the Funds. In general, this means we seek to effect transactions for the Funds in such a manner that the total cost or proceeds to the Funds of each transaction is the most favorable under the circumstances. It is important to note that best execution is a qualitative standard; it is not measured solely by reference to commission rates or price. Paying a broker a higher commission rate than rates charged by other brokers is appropriate when the difference in commission rate is reasonably justified by the value of the brokerage services obtained for the Funds.

In selecting brokers to execute trades for the Funds, we consider the full range and quality of each broker's services. Factors we consider include:

- Trading expertise and experience, including the ability to minimize total trading costs and trade without impacting the market where possible
- Execution capabilities, such as adequate infrastructure for order entry, clearing and settlement, and knowledge and resources to address any complexities particular to the type of security, the market in which it trades or the size of transaction
- Commission rates
- Value of research or brokerage services provided, including the quality, comprehensiveness and frequency of proprietary research and the ability of the broker to provide access to management and industry specialists
- Responsiveness, promptness, reliability, and overall quality of the relationship, including attentiveness to our interests, consistency of personnel, willingness to address problems and history of dealing with us fairly and honestly
- Financial strength and stability
- Administrative resources, operational efficiency

Our portfolio managers conduct the trading at North Run and select the brokers for trade execution on a transaction-by-transaction basis. As a result, the portfolio managers are able to evaluate both the qualitative and quantitative aspects of their execution services firsthand. In addition, at least annually, the portfolio managers conduct a survey of the investment analysts at North Run to evaluate the quality and value of brokerage services provided by the brokers we have used, such as research reports, discussions with sell-side analysts and industry specialists, industry conferences and meetings with management. The portfolio managers use the results of this survey, together with their own observations, to create an annual commission budget which groups and ranks the brokers and establishes target commission dollars for each broker based on this qualitative execution ranking. We then monitor actual commission expenditures throughout the year to track allocation of trade execution relative to this budget.

We do not engage in the practice of seeking or considering client referrals from broker-dealers or directed brokerage arrangements.

Soft Dollars

Where an investment adviser causes its clients to pay more than the lowest available commission to a broker-dealer in return for research or other non-execution products and services, the amount of such excess payment is generally referred to as "soft dollars," and the research and other products and services received in exchange for the higher commission rate are soft dollar benefits. North Run reserves the right to use soft dollars to pay for research and brokerage services so long as such usage meets the safe harbor criteria of Section 28(e) of the Securities Exchange Act of 1934, as amended, which provides, in summary, that it is not a breach of fiduciary duty for an adviser to cause an account to pay a commission in excess of the lowest rate available if the adviser determines in good faith that the amount of the commission is reasonable in relation to the value of the brokerage and research services provided. North Run's usage of soft dollars is currently very limited.

North Run receives valuable proprietary research services from its broker-dealers. Consistent with its responsibility to seek best execution, North Run considers the value of proprietary research and related services in its broker selection process, discussed above in this Item 12. In each case, North Run will determine in good faith whether the amount of the broker's commission is reasonable in relation to the value of research and brokerage services the broker provides to the Funds, in the context of either a particular transaction or our overall responsibilities to the Funds. North Run does not seek lower brokerage commissions to the extent that doing so might detract from the provision of such services.

Aside from the proprietary research services provided by full-service brokers, we may also enter into commission-sharing arrangements that meet the requirements of the Section 28(e) safe harbor. A commission-sharing arrangement is an arrangement whereby a portion of the commission dollars we pay to a broker-dealer for Fund trades is allocated to a third-party research provider for research products and services created or developed by the third party. We make very limited use of commission-sharing arrangements.

By way of example, the types of proprietary research and other products and services we received from broker-dealers as part of the services offered to their trading customers and from a third-party research provider under a commission-sharing agreement in our last fiscal year include research reports, calls with sell-side analysts, industry conferences, broker-arranged meetings with management, calls with industry specialists, and advice regarding investment opportunities, trading strategies and participation in various markets. In all cases, transactions were allocated to the brokers in accordance with the best execution evaluation criteria and process described above, and all such services satisfy the criteria of Section 28(e).

The usage of soft dollars may create conflicts of interest. First, the use of externally-developed research, whether purchased with soft dollars or directly, supplements and may at times partially supplant the research we perform internally. Because the North Run Funds are responsible for both research expenses and brokerage commissions, the cost of external research is borne by the Funds rather than the adviser regardless of the means of payment. However, our use of external research, obtained through soft dollars and otherwise, could be deemed to create a conflict of interest to the extent it creates an incentive for the adviser to rely on external research in place of hiring an additional adviser-compensated employee. The availability of external research could also influence our selection of brokers and lead us to pay higher commission rates to research-providing brokers than the rates available from execution-only brokers, all in the manner we describe under "Best Execution" above. Another potential conflict surrounding soft dollar usage arises when soft dollar credits generated by the trading of one account are applied to obtain research benefiting different or multiple accounts. While we manage the assets of the North Run Funds through a single account, we may, in the future, manage additional investment vehicles and/or separately managed accounts. Even managing assets through a single account, we could apply soft dollar credits to the purchase of research services after significant time has passed since the transactions that generated such credits – the Fund investors who bore the expense of the research services may be different from those who reap the benefit.

Aggregation Across Client Accounts

Because we manage the North Run Funds' assets through a single account maintained by the master fund, we do not have multiple accounts from which to aggregate orders or allocate trades. In the event that we manage additional accounts in the future, we will evaluate and adopt additional procedures with respect to aggregation and allocation.

Item 13 – Review of Accounts

Review of Accounts

North Run's portfolio managers review the Funds' portfolio daily to monitor performance and evaluate whether the portfolio is optimized to execute our investment strategy and achieve our investment objectives or whether adjustments are appropriate in light of changing market conditions, issuer developments and current opportunities and investment ideas. While the Funds' governing documents do not contain formulaic restrictions on the types of investments in our portfolio, the portfolio managers are also continuously monitoring whether the portfolio's characteristics are consistent with the investment objectives, philosophy, strategy and methodologies that we have described to investors in our offering documents, and whether they are comfortable with the general levels of investment, position concentration, and other measures of risk and potential reward that characterize the portfolio.

The investment professionals at North Run, including investment analysts and research associates in addition to the portfolio managers, meet as a group weekly to review the portfolio, challenge the investment theses of various investments, solicit feedback and discuss new ideas. Discussion of these matters also takes place throughout the week in smaller group settings.

At least monthly, we generate a series of reports for review by the portfolio managers and our chief operating officer that analyze numerous characteristics of the portfolio, including, among others, multiple measures of performance, liquidity profile, geographic and industry detail, instrument-specific and regulatory compliance reports. The focus of this review is a top-down (aggregate portfolio-level) analysis of risk, performance, consistency with our articulated objectives, philosophy, strategy and methodologies, and compliance with regulatory requirements.

Finally, the chief compliance officer and the portfolio managers also provide daily and monthly oversight of various portfolio-driven compliance requirements, such as disclosure requirements related to position or transaction size.

Reports to Investors

Regular reporting to investors includes, in addition to investor-specific monthly account statements and annual Schedule K-1s, the following written information made available on our investor reporting web site:

- A monthly report that includes monthly returns, historical performance, portfolio exposure and performance attribution by various measures
- A mid-month estimate of monthly performance
- A quarterly newsletter from the principals
- Annual audited financial statements for the applicable North Run Funds

Other regularly available reports include a quarterly AUM report, quarterly update report (performance, portfolio exposure, etc.), quarterly disclosure regarding ASC 820 classification, transparency report prepared by our third-party administrator, and other written reports we may make regularly available from time to time.

Item 14 – Client Referrals and Other Compensation

North Run does not receive any economic benefit from anyone other than its clients for providing investment advice or other advisory services to its clients, nor do we compensate any person for client referrals.

Item 15 – Custody

North Run does not maintain physical possession of client funds or securities. Together with the General Partner, however, North Run is authorized to withdraw funds or securities from the North Run Funds for the payment of management fees and other expenses, and our capacities as investment manager and general partner afford us overall access to Fund securities and funds. As a result of this access and authority, we are deemed to have custody of client funds and securities within the meaning of the Advisers Act.

Consistent with the requirements for custody of client assets under the Advisers Act, the assets of the North Run Funds are held in accounts maintained with our prime brokers and our custodian, “qualified custodians” within the meaning of the Advisers Act. Our prime brokers and custodian are banks or registered broker-dealers that hold Fund assets in separate accounts (or in a separate customer account with records identifying the assets of each such Fund in accordance with applicable broker-dealer and custodial bank regulation).

In addition, the annual financial statements of the Funds are prepared in accordance with GAAP, audited by an independent accounting firm registered with the Public Company Accounting Oversight Board and distributed to all investors within 120 days of the Funds’ fiscal year end.

Item 16 – Investment Discretion

North Run has full discretionary authority over all assets it manages for the North Run Funds, consistent with the investment objectives and strategy described in the Funds’ private offering memoranda and the terms of the Funds’ governing documents. This discretionary authority is conferred upon North Run pursuant to its investment management agreement with the North Run Funds (entered into upon the authority conveyed to the General Partner and to the offshore fund’s board of directors in the Funds’ governing documents). North Run does not provide advisory services directly to investors in the North Run Funds.

Item 17 – Voting Client Securities

North Run has sole authority to vote client securities, which we exercise in accordance with our written proxy voting policies and procedures. Our policy is generally to vote in the manner we believe is most likely to maximize value for the Funds, consistent with the investment philosophies described in the Funds’ private offering memoranda and the investment strategy applicable to the particular investment. Voting decisions are made on a case-by-case basis, based on a determination of votes in the best interests of the Funds in light of the particular facts and circumstances surrounding each vote. In our proxy voting policy, we describe some factors we are likely to consider when approaching votes on

matters where some general observations may be drawn, but the facts and circumstances of the issuer at the time of each vote ultimately guides our voting decision. We will provide a copy of our proxy voting policy and/or information regarding our voting record to clients and investors upon request.

A conflict of interest could arise between the interests of North Run and the interests of the Funds with respect to a voting decision, for example, where the North Run personnel executing voting authority has a separate business or personal relationship with the proponents of a voting proposal or directors standing for election at a portfolio company. If North Run determines that a material conflict of interest exists between the interests of North Run and the interest of the Funds with respect to a particular vote, North Run will retain a proxy voting service, or turn to another independent third party, to determine the manner in which such vote should be cast.

Item 18 – Financial Information

North Run does not require or solicit prepayment of any fees six months or more in advance and does not have any financial condition that would impair its ability to meet contractual commitments to clients.

Item 19 – Requirements for State-Registered Advisers

Item 19 is not applicable to North Run.